

2016 GASB 14/39 Component Unit Questionnaire — Preview

Introduction

An objective of Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, is that all entities associated with a primary government (PG) are potential component units (PCUs) and should be evaluated for inclusion in the financial reporting entity.

GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14, amends GASB 14 to provide additional guidance for determining if certain organizations for which the PG is not financially accountable should be reported as component units (CUs) based on the nature and significance of their relationship with the PG. Generally, it requires reporting as a CU an organization that raises and holds economic resources for the direct benefit of a governmental unit.

GASB Statement No. 61, The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34, modifies existing requirements for the assessment of PCUs to better determine what should be included in the financial statements and note disclosures of the financial reporting entity.

All agencies must submit the Component Unit Survey. The survey must be completed and submitted by Sept. 16, 2016. The questions were developed using GASB 14 (as amended by GASB 39 and GASB 61).

Contact your financial reporting analyst if you have questions about this survey.

Definitions of Key Terms

Primary government (PG): The state of Texas government — comprised of all state agencies and universities, including funds, organizations, institutions and offices that are not legally separate.

Governing body of the PG: The state of Texas Legislature — including by extension the governing bodies (if applicable) of state agencies and universities.

Component Unit (CU): A legally separate organization for which the PG's elected officials are financially accountable or an organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the financial reporting entity's financial statements to be misleading.

Potential Component Unit (PCU): A legally separate organization that may have a relationship with a primary government.

Financial reporting entity consists of:

- The PG
- Organizations for which the PG is financially accountable
- Other organizations for which the nature and significance of their relationship with the PG is such that exclusion would cause the financial reporting entity's financial statements to be misleading

Financially accountable means:

The PG appoints a majority of the PCU's board and either:

— Can impose its will on the PCU

or

— There is a financial benefit/burden relationship between the PG and the PCU

Financial accountability can also occur if the PCU is fiscally dependent on the PG and there is a financial benefit/burden relationship between the PG and the PCU, regardless of whether the PCU has a separately elected

governing board, a governing board appointed by a higher level of government or a jointly appointed board.

Financial Benefit/Burden Relationship means:

A PCU has the potential to provide specific financial benefits to, or to impose specific financial burdens on, the PG if, for example, any one of these conditions exists:

- The PG is legally entitled to or can otherwise access the organization's resources.
- The PG is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the PCU.
- The PG is obligated in some manner for the debt of the PCU.

Exchange transactions, such as purchases or sales of goods or services, are not considered a financial benefit/burden relationship.

Agency Information:

Agency Name: _____ Agency Number: _____

Date Completed (MM/DD/YYYY): _____

Agency Contact:

Name: _____

Telephone: _____ Email: _____

Agency GASB 14/39 Contact (if different than Agency Contact):

Name: _____

Telephone: _____ Email: _____

Component Unit

1. Does your agency have... (Select only one answer.)

- ☐ A newly identified component unit ([Skip to question 6](#))
- ☐ Changes to an existing component unit (Agency abolished, dissolved or transferred control of an existing component unit, address to obtain financial statement or number of appointed board of directors has changed)
- ☐ An existing component unit ([Skip to question 31](#))
- ☐ None of the above — my agency does not have any potential or existing component units ([Skip to the end of the survey](#))

Abolish, Dissolve or Transfer Control

2. Did your agency abolish, dissolve or transfer control of an existing component unit to another agency? (Select only one answer.)

- ☐ Yes
- ☐ No ([Skip to question 5](#))

3. Please provide information on the component unit that was abolished, dissolved or transferred:

Name of abolished/dissolved/transferred component unit: _____

Effective date it was abolished/ dissolved/ transferred (MM/DD/YYYY): _____

4. How will the financial activity be presented?
- ☐ Adjust balances to zero ([Skip to the end of the survey](#))
 - ☐ Restatement ([Skip to the end of the survey](#))
 - ☐ Other (please describe) ([Skip to the end of the survey](#))

Please be prepared to submit supporting documentation to frs@cpa.texas.gov.

Other Changes

5. Select if any of these items have changed.
- ☐ Address to obtain financial statements
 - ☐ Number of appointed board of directors
 - ☐ Other

Please describe _____

Please be prepared to submit supporting documentation to frs@cpa.texas.gov.

Legally Separate

Legally Separate: According to GASB 14, paragraph 15, an entity is a legally separate organization if it is created as a body corporate (or a body corporate and politic) or if it possesses the corporate powers that would distinguish it as being legally separate from the PG. Those corporate powers would give it the capacity to have a name, the right to sue and be sued without recourse to a governmental unit, and the right to acquire property in its own name. It may be necessary to review the documentation on legal standing of PCUs with the PG's general counsel.

6. Is the PCU legally separate from the PG? (Select only one answer.)
- ☐ Yes ([Skip to question 8](#))
 - ☐ No

Legal Corporate Powers

Legal Corporate Powers: According to GASB 14, paragraph 15, if an entity other than the PG holds the legal corporate powers of the PCU, it will not be included in the PG's financial reporting entity. If the PG holds the legal corporate powers of the PCU, the PCU is part of the PG.

7. Does the PG hold the legal corporate powers of the PCU? (Select only one answer.)
- ☐ Yes ([Skip to question 21](#))
 - ☐ No ([Skip to question 21](#))

Voting Majority

Voting Majority: According to GASB 14, paragraphs 22–24, if the PG appoints a simple majority of the PCU's governing board, it usually has a voting majority. However, if financial decisions require the approval of more than a simple majority, the PG is not accountable for the organization.

For the purpose of determining the appointment responsibility, the PG's appointment authority should be substantive (that is, appointed by the PG from any number of candidates of the PG's choice, with or without confirmation by the legislature).

“Appointment” of a voting majority can also include situations where the PG’s officials are required by law to serve on the PCU’s board. If, however, statute or ordinance requires the board to be selected by the PG from a slate of candidates supplied from individuals or groups other than the PG’s officials or appointees, the PG’s appointment authority is not considered to be substantive.

If the board appointment is not continuing — for example, the original board was appointed by the PG, but any vacancies are filled by recommendations or votes from the current board members — then the voting majority criterion is not met. However, if the board appointment is not continuing, but the PG has the ability to unilaterally abolish the PCU, then the board appointment criterion is met. The PG can unilaterally abolish the PCU if the PG can cause the PCU to cease operations. The abolishment occurs even if the legal structure or shell of the PCU remains intact. “Unilaterally abolish” is not the same as applying the provisions of the Sunset Act.

8. Does the PG appoint a voting majority of the PCU’s board? (Select only one answer.)

- ☐ Yes ([Skip to question 15](#))
- ☐ No

Fiscally Dependant

Fiscally Dependent: According to GASB 14, paragraph 21b, as amended by GASB 61, paragraph 6a, a PCU may be included in the financial reporting entity if it is fiscally dependent on the PG — regardless of whether the PCU’s governing board is appointed by the PG — and there is a financial benefit/burden relationship between the PG and the PCU. A PCU is not fiscally dependent on the PG if it has the ability to complete essential fiscal events without substantive approval by the PG. A PCU is fiscally independent of the PG if it has the authority to do all three of the following:

1. Determine its budget without the PG having the authority to approve and modify that budget.
2. Levy taxes or set rates or charges for services without the approval of the PG.
3. Issue bonds or other debt without approval by the PG.

Fiscal dependency does not require that the PCU receive financial assistance from the PG. The fiscal dependency concept is not based on the existence of either a financial burden on or benefit for the PG. A PCU being subject to ministerial (or compliance) approvals does not meet the fiscal dependency criterion outlined above. Examples of ministerial or compliance oriented approvals are:

- A requirement that an agency approve a PCU’s debt after review for compliance with certain limitations, such as debt margins.
- A requirement for an agency to review a PCU’s budget in evaluating qualifications for state funding.
- A requirement for an agency to approve tax rates assessed by a PCU after review of compliance with tax rate and levy limitations.

However, if an agency has the authority to reduce or modify a PCU’s budget, the approval is substantive rather than ministerial or compliance oriented.

9. Is the PCU fiscally dependent on the PG? (Select only one answer.)

- ☐ Yes
- ☐ No ([Skip to question 11](#))

Financial Benefit/Burden

Financial Benefit/Burden: According to GASB 14, paragraph 21b, as amended by GASB 61, paragraph 6a, the PG is financially accountable if a PCU is fiscally dependent on the PG and the PCU can provide a financial benefit to, or can impose a financial burden on, the PG. GASB 14, paragraphs 27-33, as amended by GASB 61, paragraph 6b, states that a financial benefit or burden is created if any one of the following relationships exists:

- The PG has access to the PCU's resources. The ability to use the resources only needs to exist. The actual use of those resources is not required. An interest in the remaining assets of a PCU when liquidated is not considered providing the PG with access to the PCU's resources.
- The PG is legally required or has assumed the responsibilities to finance the PCU's deficits or financially support the PCU.
- The PG is obligated in some manner for the debt of the PCU.

For example:

1. The PG is legally responsible for debt that is not paid after other default remedies have been pursued.
2. The PG is required to provide funds to cover temporary deficiencies.
3. The PG is either required to fund reserves maintained by the PCU or to create its own reserve fund.
4. The PG is authorized to either fund reserves maintained by the PCU or to create its own reserve fund and has established such a fund. (If a fund is not established, then consider 6 and 7 below)
5. The PG is authorized to either provide financing for a reserve fund maintained by the PCU, for the purpose of repurchasing outstanding debt, or to create its own reserve fund and has established such a fund. (If a fund is not established, consider 6 and 7 below)
6. The debt contract states that the PG may cover defaults (even though it is not required to do so).
7. Legal precedents related to actual or potential defaults make it probable that the PG will be responsible for the PCU's defaulted debt.

10. Is there a financial benefit/burden relationship between the PCU and the PG? (Select only one answer.)

- ☐ Yes ([Skip to question 18](#))
- ☐ No

Tax Exempt

Tax Exempt: When considering whether a PCU is tax-exempt, consideration is not limited to 501(c)(3) organizations.

11. Is the PCU tax-exempt? (Select only one answer.)

- ☐ Yes
- ☐ No ([Skip to question 13](#))

Resources held by PCU

Resources held by PCU entirely or almost entirely for direct benefit of agency: According to GASB 14, paragraph 40a, as amended by GASB 39, paragraph 5, the PCU directly benefits the PG if the PCU obtains, seeks to obtain or holds and invests resources that will benefit the PG. This does not mean the resources must be transferred to the PG within the reporting period — rather, if the resources obtained or held are ultimately for the benefit of the PG, then a direct benefit exists. If the PCU has the ability to redirect the resources at its own discretion so that the resources would not benefit the PG (such as sending the resources to another organization that does not have any relationship with the PG), the PCU would not be reported as a component unit.

12. Are the economic resources received or held by the PCU entirely or almost entirely for the direct benefit of the PG (any state agency or university) or another component unit of the PG? (Select only one answer.)

- ☐ Yes
- ☐ No ([Skip to question 21](#))

Related to/financially integrated with the PG

Closely related to, or financially integrated with, the PG: According to GASB 14, paragraph 41, as amended by GASB 39, paragraph 6, closely related PCUs include those that are financially integrated with the PG. Financial integration may be exhibited or documented through the wording of charters or bylaws of either the PG or the PCU. Examples include:

- The bylaws state that failure to distribute resources to the PG may cause the PCU to lose its tax-exempt status
- Participation by employees of the PCU in programs sponsored by the PG
- Representation in financial aid accountability systems of work-study fellowships granted to students of a PG for work performed for the PCU
- Participation by employees of the PG in research activities of the PCU and inclusion of that activity in the effort reports of the PG
- Provision of office space and administrative services to or from the PCU

13. Is the PCU closely related to, or financially integrated with, your agency? (Select only one answer.)

- ☐ Yes ([Skip to question 18](#))
- ☐ No

Joint Venture, Jointly Governed Organization, Related Party

A joint venture is a legal entity or other organization resulting from a contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain an ongoing financial interest or an ongoing financial responsibility. In order to maintain joint control, no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

If there is joint control but the participants do not have an ongoing financial interest or ongoing financial responsibility, then it is a jointly governed organization rather than a joint venture.

A related party is a third party with which the PG may deal where one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties may be prevented from fully pursuing its own separate interests. A related party may also be one that can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to the extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

14. Does the PCU qualify as a Joint Venture, Jointly Governed Organization (GASB 14, paragraphs 69–78) or Related Party (GASB 62, paragraphs 54–57)? (Select only one answer.)

- ☐ Yes ([Skip to question 22](#))
- ☐ No ([Skip to question 21](#))

For information regarding Joint Ventures, Jointly Governed Organizations and Related Parties, see the Financial Reporting Entity on the Reporting Requirements website.

Impose Its Will

Impose its will: According to GASB 14, paragraph 21a, as amended by GASB 61, paragraph 6a, a PG is financially accountable if it appoints the voting majority of a PCU's governing board and:

it is able to impose its will on the PCU

— or —

there is the potential for the PCU either to provide specific financial benefits to, or to impose specific financial burdens on, the PG.

According to GASB 14, paragraphs 25–26, imposition of will is defined as the ability of the PG to significantly influence the programs, projects, activities or level of services performed or provided by the PCU. While the determination of the concept of imposition of will is a matter of judgment, GASB concluded that the existence of any of the following is a clear indication of the PG's ability to affect the day-to-day operations of the PCU:

- Appointed members can be removed at will by the PG
- The budget can be modified or approved by the PG
- Rate or fee charges that affect the revenues can be modified or approved by the PG
- Other decisions may be vetoed, overruled or modified by the PG
- Management personnel may be appointed, hired, reassigned or dismissed by the PG

The imposition of will criterion is also met if the PG can unilaterally abolish the PCU. The PG can unilaterally abolish the PCU if the PG can cause the organization to cease operations. The abolishment occurs even if the legal structure or shell of the organization remains intact. "Unilaterally abolish" is not the same as applying the provisions of the Sunset Act. The ability to unilaterally abolish the PCU can be used to meet the board appointment criterion and the imposition of will criterion.

The application of the Sunset Act involves a formal due process and therefore does not meet the imposition of will criterion.

15. Is the PG able to impose its will on the PCU? (Select only one answer.)

- ☐ Yes ([Skip to question 17](#))
- ☐ No

Financial Benefit/Burden

Financial Benefit/Burden: According to GASB 14, paragraph 21b, as amended by GASB 61, paragraph 6a, a PG is financially accountable if it appoints the voting majority of a PCU's governing board and:

it is able to impose its will on the PCU

— or —

there is the potential for the PCU either to provide specific financial benefits to, or to impose specific financial burdens on, the PG.

GASB 14, paragraphs 27–33, as amended by GASB 61, paragraph 6b, states that a financial benefit or burden is created if any one of the following relationships exists:

- The PG has access to the PCU's resources. The ability to use the resources only needs to exist. The actual use of those resources is not required. An interest in the remaining assets of a PCU when liquidated is not considered providing the PG with access to the PCU's resources.
- The PG is legally required or has assumed the responsibilities to finance the PCU's deficits or financially support the PCU.
- The PG is obligated in some manner for the debt of the PCU.

For example:

1. The PG is legally responsible for debt that is not paid after other default remedies have been pursued.
2. The PG is required to provide funds to cover temporary deficiencies
3. The PG is either required to fund reserves maintained by the PCU or to create its own reserve fund.
4. The PG is authorized to either fund reserves maintained by the PCU or to create its own reserve fund and has established such a fund. (If a fund is not established, then consider 6 and 7 below)
5. The PG is authorized to either provide financing for a reserve fund maintained by the PCU, for the purpose of repurchasing outstanding debt, or to create its own reserve fund and has established such a fund. (If a fund is not established, consider 6 and 7 below)
6. The debt contract states that the PG may cover defaults (even though it is not required to do so).
7. Legal precedents related to actual or potential defaults make it probable that the PG will be responsible for the PCU's defaulted debt.

16. Is there a financial benefit/burden relationship between the PCU and the PG? (Select only one answer.)

- ☐ Yes ([Skip to question 18](#))
- ☐ No ([Skip to question 22](#))

PG Imposes Its Will

17. Indicate how the PG imposes its will. (Mark all that apply.)

- ☐ Remove appointed board members at will
- ☐ Ability to modify or approve the budget of the potential component unit
- ☐ Ability to modify or approve rate or fees changes affecting revenues
- ☐ Ability to veto, overrule or modify the decisions of the PCU's governing body
- ☐ Ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of the PCU
- ☐ The PG may unilaterally abolish the PCU by ordering the PCU to cease operations
- ☐ Other (specify below)

Please indicate what you mean by "Other" _____

Services or Benefits the PG

Services or benefits the PG: According to GASB 14, paragraph 53, if the CU provides services entirely, or almost entirely, to the PG or otherwise exclusively, or almost exclusively, benefits the PG even though it does not provide services directly to it, include the CU as blended. The essence of this type of arrangement is similar to an internal service fund where the goods or services are provided to the government itself. This arrangement can happen even if the CU does not provide services directly to the PG, as long as the PG is benefiting from the CU's services.

For example, a CU would be blended if it was established by the PG to administer the PG's employee benefits program. The services are being provided to the PG indirectly since the CU is providing services to the PG's employees.

However, if the services are being provided to those external to the government, then the blended criterion is not met. This is true even if the primary purpose of the CU is to provide financing to the PG and therefore the PG derives a benefit from the activities of the PG. For example, a state lottery is operated by an outside organization, and the purpose of the lottery is to provide revenue to the PG. The service provided by the

lottery — the opportunity for financial gain — is provided to anyone who would like to participate. When a winner achieves that financial gain, the lottery operation does not exclusively, or almost exclusively, benefit the PG. Therefore, the blended criterion is not met.

18. Does the PCU provide services entirely or almost entirely, or otherwise exclusively or almost exclusively benefit, the PG? (Select only one answer)

- ☐ Yes ([Skip to question 23](#))
- ☐ No

Repayment of Debt

Repayment of Debt: According to GASB 61, paragraph 8a, if a CU's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with the resources of the PG, report the CU as blended. The repayment usually occurs through a continuing pledge and appropriation by the PG to the CU that, in turn, pledges those appropriation payments as the primary source of repayment of its debt. If the PG pledges resources as a secondary source of repayment, or if the resources received by the CU from the PG are just one of many resources available to the PCU, then the CU is reported as a discretely presented component unit.

19. Is the CU's total debt outstanding expected to be repaid entirely or almost entirely with resources of the PG? (Select only one answer.)

- ☐ Yes ([Skip to question 23](#))
- ☐ No

Fiduciary in Nature

Fiduciary in Nature: According to GASB 34, paragraph 125, CUs that are fiduciary in nature are included only in the fund financial statements with the PG's fiduciary funds.

20. Is the PCU fiduciary in nature? (Select only one answer.)

- ☐ Yes ([Skip to question 24](#))
- ☐ No ([Skip to question 25](#))

"Yes" to Previous Question

You answered "Yes," which means this entity is part of the PG and should already be included in the agency or university financial statements. Select **No Disclosure** below.

"No" to Previous Question

You answered "No," which means this entity is not part of the PG. Select **No Disclosure** in the following question.

No Disclosure

21. It has been determined that the PCU is not a component unit, related organization, joint venture, jointly governed organization or related party of this reporting entity, so select **No Disclosure**.

- ☐ No Disclosure

You responded "Yes" to the previous question. Disclosure in Note 19 is required. Please click **Next**.

Note Disclosure

Related Organization: Organizations for which the PG is accountable because the PG appoints a voting majority of the organization's board, but is not financially accountable. Report the entity as a related organization in Note 19. Please click **Next**.

Note Disclosure (cont.)

22. Please select **Note Disclosure** and click **Next**.

- ☐ No Disclosure

Blended

Blended Presentation: According to GASB 14, paragraphs 52–54, blending presentation is a treatment that requires the CU's balances and transactions to be reported in a manner similar to the balances and transactions of the PG.

23. This component unit must be included in your fiscal 2015 financial statements as blended. Please select **Blended** below.

- ☐ Blended ([Skip to question 26](#))

Discrete — Fiduciary

Discrete Presentation — Fiduciary: According to GASB 34, paragraphs 124–126, CUs that are fiduciary in nature should be included in the fund financial statements with the PG's fiduciary funds. The CU's fiduciary activities, whose resources are not available to finance the government's programs, should be excluded from the government-wide statements.

24. This component unit must be included in your fiscal 2015 financial statements as Discrete — Fiduciary. Please select Discrete — Fiduciary below as the method of inclusion.

- ☐ Discrete — Fiduciary ([Skip to question 26](#))

Discrete — Non-Fiduciary

Discrete Presentation — Non-Fiduciary: According to GASB 14, paragraphs 44–51, discrete presentation is a treatment that requires reporting the CU's financial data in one or more columns separate from the financial data of the PG. Information about each major CU is provided in the basic financial statements of the reporting entity. Governments can satisfy this requirement by:

- Presenting each major CU in a separate column in the reporting entity's statements of net position and activities.
- Including combining statements of major CUs in the reporting entity's basic statements after the fund financial statements.
- Presenting condensed financial statements in the notes to the reporting entity's financial statements.

25. This CU must be included in your fiscal 2015 financial statements as Discrete — Non-Fiduciary. Please select **Discrete — Non-Fiduciary** below as the method of inclusion.

- ☐ Discrete — Non-Fiduciary

Final Questions

26. What is the CU's fiscal year? (Select only one answer.)

- ☐ September 1 to August 31
- ☐ January 1 to December 31
- ☐ Other (please specify a date range)

27. How soon after its fiscal year-end are the financial statements available for the CU? (Select only one answer.)

- ☐ Within 30 days
- ☐ Within 60 days
- ☐ Within 90 days
- ☐ Within 120 days
- ☐ Other (please specify)

28. If the CU distributes audited financial statements, when are the audited financial statements available? (Select only one answer.)

- ☐ The CU does not distribute audited financial statements
- ☐ Within 30 days
- ☐ Within 60 days
- ☐ Within 90 days
- ☐ Within 120 days
- ☐ Other (please specify)

29. Describe the accounting model or basis of accounting and reporting used by the potential component unit. (Select only one answer.)

- ☐ Statutory reporting basis
- ☐ Not-for-profit accounting
- ☐ Governmental accounting
- ☐ Proprietary accounting
- ☐ Accrual accounting
- ☐ Other (please specify)

30. If the organization was established by legislation, what specific Texas Code established the organization?

Please be prepared to submit supporting documentation to frs@cpa.texas.gov.

31. List existing discrete component units below.

32. List existing blended component units below.

Thank you for your time.

NOTE: This questionnaire will **not** be marked complete unless you press the submit button below to complete this survey.

Before you click the **submit** button, please see below for reminders:

- Changes to an existing component unit – submit a copy of the organization’s revised by-law and supporting documentation to frs@cpa.texas.gov
- A newly identified component unit – submit a copy of the organization’s by-law and supporting documentation to frs@cpa.texas.gov